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FOREIGN SERVICE DESPATCH

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FROM : AMEMBASSY, GUATEMALA — 989 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — May 8, 1953 DATE

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SUBJECT: WEEKA NO. 19 - ECONOMIC SECTION

DECLASSIFICATION DATE 11-30-78
PER CHRMAN ADRC FOI CASE NO. 14032 OFFICE ARA

SECTION II

Business in April was slow, continuing to reflect the unsettled conditions and lack of confidence which have depressed economic activity since the Agrarian Reform Law was sent to Congress a year ago. Hardware, heavy machinery and automotive lines remained at their low level of the past year and a seasonal decline in department and appliance store sales was accentuated by reportedly mounting consumer resistance to the higher prices which followed the February 1953 rise in import duties. Bankers state that loan collections were increasingly difficult due to concern over possible changes in the labor laws and higher taxes.

Social Security Taxes

After a month-long public debate over the recent proposals of the Guatemalan Social Security Institute (IGSS) to finance its new maternity-infant care program by a substantial increase in required contributions, the IGSS this week raised the payroll tax from 3 percent to 5 percent for private employers, from 1-1/2 percent to 2 percent for employees, and from 1-1/2 percent to 3 percent for the Government. Local businessmen, worried about recent and prospective increases in their tax burdens, were joined by labor unions in opposing the proposed assessment but the unions were apparently mollified by a last-minute reduction in the workers' tax for the Institute's accident program.

The increased contributions are expected to provide the IGSS with an additional $2,000,000 per year but the Chamber of Commerce claims that the new program could easily be financed with much less if the Institute reduced its administrative expenses, which accounted for 28 percent of its

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1951-52 budget, and if the Government paid its overdue obligations of about $900,000. The General Association of Guatemalan Manufacturers (AGIG) said the imposition of the additional tax was particularly serious at this time because of "prevailing economic circumstances". Sr. Alfonso SOLORZANO, IGSS Manager, replied that the protests had been instigated by "reactionary agitators" who were determined to destroy the Social Security system. The AGIG considered appealing to the courts on the ground that the new schedule illegally imposes more than 50 percent of the total tax on the employer.

Rudolf E. Schoenfeld

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